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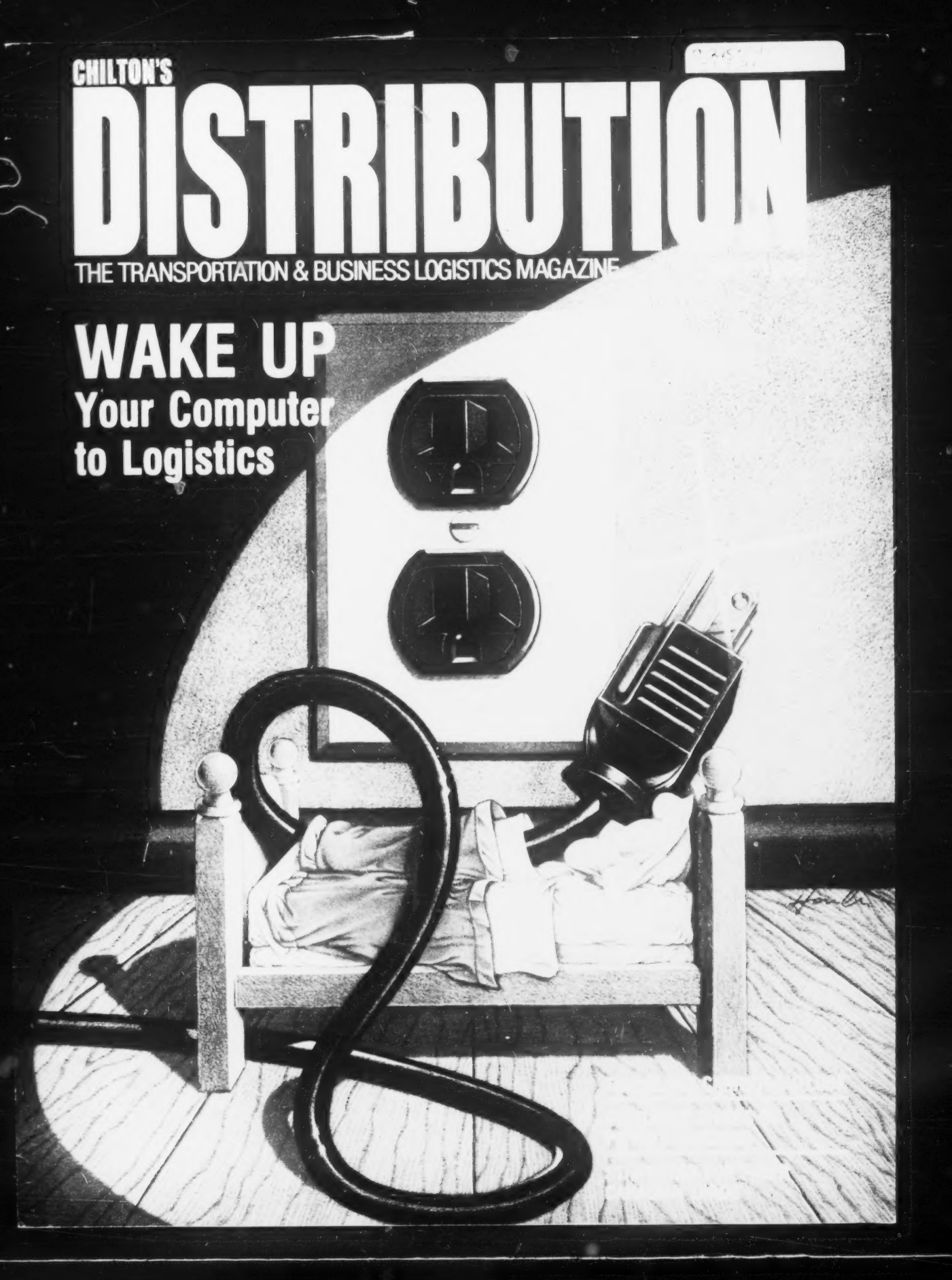
Your Computer to Logistics



MAY 1989

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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

VOL. 88, NO. 5

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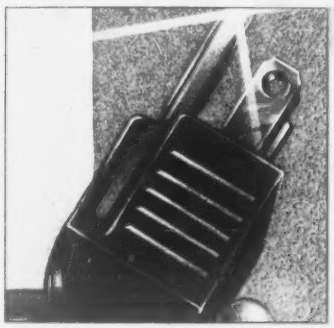
For most companies, EDI, MRP, Auto ID and other advanced computer technologies are still a dream because their logistics departments lack the expertise, or the courage, to wake up the sleeping giant of integrated logistics systems. Top management has rung the alarm for today's logistics managers to open their eyes and learn how to share data.



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TRUCKLOAD STAKES OUT NEW TERRITORY

Truckload firms are competing fiercely for freight on low-cost, secondary routes. That's good news for shippers. But the amount of freight isn't expanding as rapidly as the number of trucks vying for it.

By Kurt Hoffman, Contributing Editor

Call them high-service, high-utilization, advanced, low-cost or super. Today's leading truckload carriers continue to rack up impressive 15 to 35 percent annual growth rates as they duel their competition for the allegiance and dollars of the shipping public.

Factor in the growing high-density lane competition of low-cost, double-stack container trains and other intermodal operations, particularly on westbound routes, and there are new opportunities for shippers. Truckload firms faced with oversaturation of competition in the primary lanes are hungrily scouring secondary routes, seeking new sources of freight to fuel their rapid annual growth.

This redirection of sales should bring attractive rate and service packages for distribution managers along secondary routes who have been hearing for years about 80 cent-per-mile routes but haven't seen any.

What's Out There?

"There's only so much freight out there, and the amount isn't expanding nearly as rapidly as the number of trucks that are trying to get on the road," says Terry Turner, executive director of the Interstate Truckload Carriers Conference.

But a lot of freight is changing hands between carriers. When the largest carrier operating in a $100 billion market has annual revenues of about half a billion dollars, there's a lot of room for well-managed, low-cost companies to grow.

"More shippers are adopting the 'core carrier concept' where they do business with only a few larger, better capitalized, higher-service carriers," says John Larkin of Alex Brown & Sons.

"As more shippers aggressively implement this theory, tremendous growth opportunities open up for carriers that meet the core carrier criteria and have the financial means to add equipment fast enough to handle a larger share of the customer's business," says Larkin. "Having the management and control systems to hold it all together is another critical factor."

"There aren't many people out there that can satisfy those criteria," adds Larkin. "Those that do can make a whole lot of money for their investors over the next few years."

Private freight conversion also should feed truckload's growth into the 1990s. Although long-haul private carriage freight already has been ravished by truckload and intermodal operators, private carriage conversion in the shorter haul and secondary lanes will almost certainly follow the redirection of truckload sales and marketing efforts.

"Long-haul private carriage has really been eaten up by the truckload carriers," says Paul Roberts, a motor carrrier consultant. That may not be apparent when you look at the cumulative numbers of private carriage, but short-haul movements account for a tremen-

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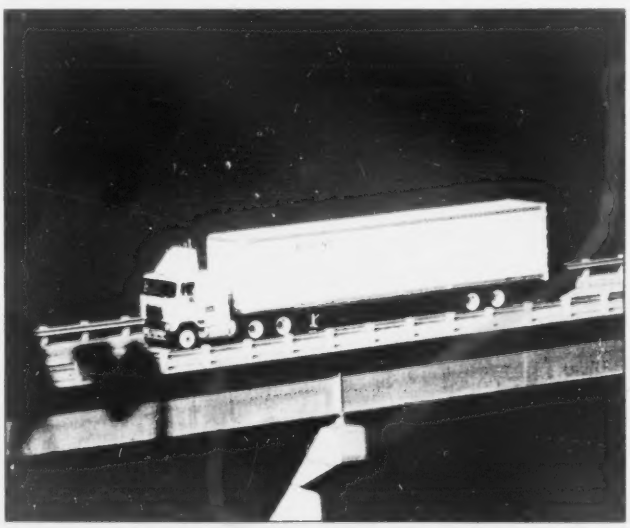

J.B. Hunt is the largest and most profitable truckload carrier
Hungry carriers scour secondary lanes for freight.

dous share – perhaps as high as 85 to 90 percent of private carriage," he says.

As the railroads reinforce their positions in the long-haul, high-density lanes, truckers are gravitating away from the intense rail competition in those long-haul lanes and setting their sights on shorter-haul and secondary lanes where less intermodal competition exists. It's along these secondary routes where more opportunities for private carriage freight conversion lay waiting.

However, these higher-rated, shorter-haul routes create certain problems for truckload carriers, notes Larkin. "It's more difficult to get utilization, reduce empty miles, and keep the drivers happy," he says. "But increasingly, the J.B. Hunts, the Werners and the Schneiders of the world are going to be turning over more and more rocks in places where they previously wouldn't have considered looking," says Larkin.

"Intermodal carriers may be eating the truckers' lunch in the high-density, long-haul lanes like Seattle-Chicago and L.A.-Chicago, but conventional TOFC in the 500-mile range is being compressed into a profitless operation in some lanes, such as Atlanta-Chicago and Atlanta-St. Louis.

"Those are marginally profitable lanes for TOFC anyway. It's just too short a distance. You can't run double-stacks, and the TOFC rates are too high if you're going to recover your full costs," says Roberts. Some railroads are pulling out of those lanes, he adds, as evidenced by CSL Intermodal's recent downsizing of its core intermodal network. CSLI substituted service by CMX Trucking in some corridors that previously received direct intermodal service. "That makes the freight that much more susceptible to truck diversion," says Roberts.

Rate competition, especially in backhaul lanes, should encourage shippers of large LTL loads to convert to truckload, where higher service factors can be obtained for the same price as the LTL movements.

ATLFs vs. Average TL Carriers

Cost Comparison

Costs/Total Mile	ATLFs	Average Carriers	Variance
Labor	.27	.33	22%
Fuel	.19	.23	21%
Equipment	.21	.27	29%
Other	.21	.20	(5%)
Total	.88	1.03	16%

ATLFs vs. Average TL Carriers

Productivity/Efficiency Comparison

Factor	ATLFs	Average Carriers
Tractor utilization	113,000	94,000
Empty mileage ratio	7%	12%
Out-of-route ratio	8%	12%
Trailer:tractor ratio	2.0	1.5
MPG	5.75	5.25

There is a significant difference in productivity and operating cost between advanced truckload firms (ATLFs) and their competitors.

Source: Temple, Barker & Sloane

The Competition Stiffens

"This isn't a nice business anymore," admits a trucking manager who has participated in the development of the truckload industry over the past eight years. "The fun is gone. Trucking has become a fiercely competitive business in which a constant battle of lower rates determines who gets the freight."

Also gone are the days when truckload competitors have a gentlemanly respect for each other's major customers, says the trucking manager. While the warfare hasn't deteriorated to a personal level, it's hot and heavy on the business front. "The owners are still speaking to each other, but let's face the facts: They're stealing freight from each other, just like they're stealing drivers," he says.

"Let me put it this way: If you have some freight that fits my lane, I'm going to find out where it's coming from and I'm going to try to get it from you," he explains. "And I'm not going to ask your permission, either.

"If you know you're going to have 10 trucks in Dallas each day, not only can you accept loads on short notice, but you're in the position to become the house carrier for a lot of big companies," says Roberts. "These big shippers don't want to have to call 25 carriers to find one that has a truck

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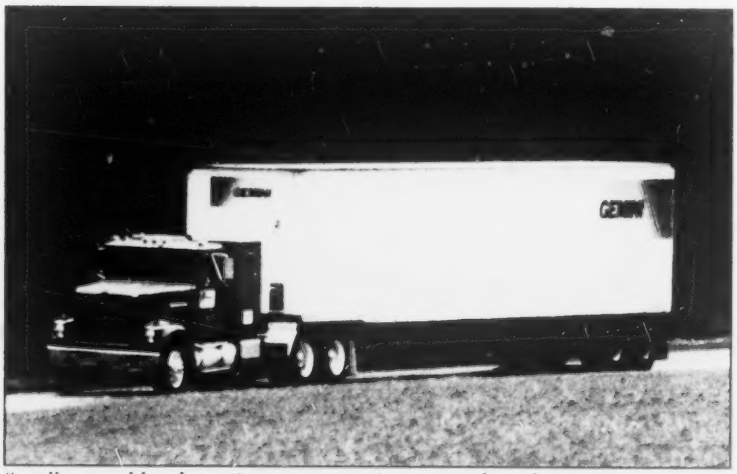

Smaller truckload carriers must continue to seek niches
Big carriers have advantages that could mean rough going for others.

near Dallas, so it boosts your marketing leverage when you can tell that shipper you can give it five of those 10 trucks each day. You can charge a little premium because it only takes one call to move that shipper's Dallas freight."

The leading large carriers also have a significant edge in costs that translates into major advantages "vis a vis" their smaller counterparts when it comes to rates and lane balance.

"Because they're so low-cost, they can come and take freight wherever they need it," says Roberts. "If they need to cut their price to 85 cents to fill up a backhaul lane, they can do it and still charge $1.00 or $1.50 on the front end of the movement. In doing so, they can reposition their trucks in ways that smaller carriers can't."

Consequently, the pressure continues for smaller truckload carriers to seek profitable route-specific or product-oriented niche operations to remain competitive. Tailoring the operation may require raising some costs while lowering others, and adding some equipment here while taking it away from there.

"For some of these carriers, it looks like they are slowly trimming their way back to zero," says Roberts.

Larger carriers, with their generally larger staffs and more sophisticated systems, also should be better positioned than their smaller counterparts to absorb the expenses expected to be incurred by heightened state and federal truck safety enforcement efforts now being undertaken.

Access to capital also puts the larger carriers in the position to take advantage of satellite communication technology—a big plus in negotiating JIT contracts and other time-sensitive business. (Schneider ran full page ads in the *Wall Street Journal* late last year when the truckload carrier outfitted its fleet with the satellite devices.) While the economics of this technology may not be that compelling, it clearly can differentiate service in the eyes of the Sears or J.C. Penneys of the world.

Rates Increase Slightly

For the first time since deregulation, truckload rates in 1988 flattened out and even increased slightly virtually in all lanes with the exception of the long-haul, high-density lanes such as Los Angeles Oakland Seattle to Chicago and New York.

"The margins were getting squeezed to the point where trucking managers couldn't afford to do some of the things that needed to be done—like giving their drivers some more money—without taking a rate increase," he explains.

Another way to look at it is that the efficiencies brought into the business by deregulation have largely been realized, and it's getting to the point where carriers are starting to pass along some of their cost increases to maintain their margins and continue their growth.

But the industry price leaders, J.B. Hunt, Schneider and North American, clearly have their sights set on higher goals, and it remains to be seen whether rate stability will remain as Hunt and Schneider each add a thousand trucks or so to their fleets in 1989. "They'll have two choices," says Larkin: "To either seek new sources of freight or force these new trucks into their current lanes. If they're forced towards the latter alternative, rates are certain to take a hit, since they both are calling on the same customer."

A great deal of consternation has been created in some corners by the talk of a significant hike in the fuel tax in 1991. But any new tax would have to be pretty steep to affect the competitive positions of truckload and intermodal.

Besides, someone who gets six miles per gallon in his new Navistar 9700 or Freightliner Conventional will pay less than a penny a mile as a result of an additional nickel per gallon tax.

"I don't think there are too many shippers out there that are going to switch modes for less than a penny a mile," says Larkin. "There may be some sitting right there on the margin, but we generally don't start seeing some modal transfer until there's a nickel per mile difference."

Within the truckload business, however, a significant tax hike could further tighten the noose around the smaller, less capitalized carrier that may not be able to afford the fuel efficiency advantage available through new power equipment or new trailer configurations such as Western doubles or triple pups that might be approved in the next highway bill. For the smaller truckload carrier, the future promises some rough going. ■